



Spotlight: Iraq's Insurance Market – An Opportunity For the Next Decade

Introduction:

The travails of Iraq as a country have been well documented in the world's media over the last five years. Have you noticed how Iraq has not been in the news as much recently? The simple reason, and please whisper it, things are improving significantly there. The caveat of course is that the country is now almost completely divided along religious, regional and tribal fault lines. Many of the professional middle classes now reside in Jordan, Syria or the West and with the dramatic fall in the price of oil there are still many difficult times ahead. A forthcoming year of political uncertainty prior to autumnal elections, strong Iranian influence across the country and virtually no headway made on the vitally important Kirkuk question, means that things are far from rosy in the home of the Garden of Eden.

Historical Background:

This said, there is a tangible sense of optimism in the country. People have started smiling again in Baghdad and as a friend of mine recently said: "You know things are improving when you can buy and drive a new car without the fear of being kidnapped for doing so!"

Ironically Iraq had the strongest insurance market in the Middle East between the 1950s and 1970s. Many of the surviving professionals from those days are now General Managers of large insurance companies in the Gulf, or have recently retired having spent most of their professional lives outside the country.

Under Saddam Hussein the insurance market, like many things in the country, was abused. On the surface the industry carried on. However corruption from the top permeated through the whole market. As an example, the historic Motor Third Party Liability claims fund, collected from 2 cents in every dollar of fuel sold in state garages, reputedly ended up as Uday Hussein's pocket money. The result of course, coupled with fuel price rises due to International sanctions, was a thriving black market economy. To the point where still today, unofficial fuel sellers perch on the side of every major arterial route in Iraq surrounded by jerry cans of smuggled fuel from Iran or Turkey. Needless to say, Iraqis have not tried the futile gesture of claiming when they have had a vehicle accident, for a very long time.

In 2005 the U.S. administration, the Coalition Provisional Authority, drafted a new law which effectively cut across all previous Iraqi insurance laws – most of which were perfectly decent.

The main point about this current law is that there is no requirement for local placement. Although written with obvious security (both physical and financial) concerns in mind, the result has been a massive outflow of premium from the country. With the current cost of coalition efforts to rebuild Iraq estimated to be in the region of US\$ 3 trillion, this is an awful lot of lost premium. The three state insurance companies and the handful of privately owned entities struggle on, using their relatively limited treaty through Munich Re. The limits are low, classes limited and until recently, no war and terrorism was available. Under the former regime, the statist culture was so strong that all insurance companies had to follow the state companies' lead through their treaty. This culture still prevails meaning that most companies are still yet to develop strong links with International markets.

The Current Market:

How would a foreign company, interested in doing business in Iraq go about doing so? Firstly, there are currently only two geographical areas to consider at present, Baghdad and the Federal Region of Kurdistan in the north. Baghdad is still where the country's power lies. All the major oil and infrastructure contracts are signed there. So the choice is to take the risk of visiting Baghdad or just visit the relatively safe area of the Federal Region of Kurdistan where contracts are smaller but development is well and truly underway.

In the north, the Kurdish people, helped by their significantly better security situation over the last five years, have built a thriving regional economy. Smaller oil companies have been enticed to the region and have signed profit sharing agreements with the Federal Government. Baghdad questions the validity of these contracts. Construction projects continue apace and the agricultural sector is being pushed hard. Historically the Erbil region was the breadbasket of Iraq. The Kurds currently have three insurance companies. All have links to the Federal Government and all currently offer limited options in terms of products. There are no local brokers and we are the only foreign brokers working inside Iraq.

Our experience has been that much of our efforts have had to concentrate on developing product rather than chasing clients. Of course we have made it our business to know who to deal with in the local market, but the ability to provide competitive rates, have knowledge of local law, to know which loss adjusters will actually work there to an acceptable standard, knowing which claims handling companies or medevac providers to use or knowing where to find a structural engineer with an acceptable qualification have proved to be equally important.

To conduct business with Iraqi insurers is very tricky when being done remotely. Electronic business is still not the accepted means of working. Many insurers, even if they have internet connections, only use e-mails infrequently. Security concerns have resulted in little internal training, few meetings with external markets and the feeling of isolation persists. The incredible bravery of these few practitioners who have carried on doing business, particularly in Baghdad through the troubles, was particularly highlighted to me when one of the leading figures in the industry, the head of the Iraq National insurance company was killed by a roadside bomb in 2007. Also I can remember going for a meeting with the General Manager of one of the bigger private insurance companies in 2006 in downtown Baghdad. I arrived surrounded by a team of twelve highly armed international security guards, he arrived on his own, driving his (I was later to discover) infamous old Mercedes, on his own.

Looking Ahead:

Iraq's oil wealth is well known. Indeed it could be argued that this has been part of its troubles. With the scaling back of U.S. involvement in the country, the Iraqi Government has assumed control of most facets of political life. This means that such sectors as transport, labour, education, agriculture as well as natural resources, are in need of external help from International insurance markets. This is potentially one of the biggest emerging markets in the world.

We are predicting a relatively slow 2009, but significant developments once the new Government is in power by 2010. As Iraq is gradually assimilated back into the International

community, the opportunities will only increase. We believe that many of the bigger regional insurance players will become more interested in this market, and almost certainly invest there, during the next few years. A word of caution though, as a natural backlash to the West's involvement, perceived or otherwise, in Iraq's travails over the last five years, could result in a market which is protectionist and difficult for International companies to enter. Even now, to register a regional office of a foreign company in Baghdad is extremely difficult.

Conclusion:

We at AAIB are committed to the market. We believe that the country has turned a corner and, having been there during the difficult years and developed many contacts and friends, we look forward to the next ten years with relish. The first major step will be the amendment of the current insurance law, insisting on local placement of Iraqi risks. We understand that this is imminent. Even Afghanistan has such a law!